

Air France-KLM Position Paper Fit for 55 Trilogues

12 OCTOBER 2022

✈ Context

The Air France-KLM Group (hereafter: “AFKL”) fully supports the Fit for 55 (FF55) package as it is in line with the industry’s ambition to ramp up the efforts to decarbonise the industry. AFKL is working on reducing its environmental impact and is committed to reaching net-zero CO2 emissions by 2050, through a credible decarbonisation trajectory towards 2030 following Science-Based Targets (SBTi). **Making the aviation sector more sustainable is and will remain a top priority for AFKL.** Therefore, we welcome the work done on the FF55 proposals and we acknowledge that several constructive amendments were forwarded by the co-legislators to further improve the proposals. At the same time, AFKL believes that the proposed policies can be further refined by including appropriate remedies to mitigate against the risk of having Europe and its citizens being affected by downgraded air connectivity and carbon leakage, while remaining uncompromising on the acceleration of the decarbonisation ambition. Therefore, we suggest the following adjustments to further improve the ReFuelEU Aviation proposal, the revision of the EU ETS for aviation and the proposal for a Carbon Border Adjustment Mechanism (CBAM).

✈ Key messages on the FF55 proposals

1. ReFuelEU Aviation

We fully support the ReFuelEU proposal, which aims to boost the production, supply and uptake of Sustainable Aviation Fuels (SAF) in the EU by giving clear signals to all stakeholders through an EU-wide SAF blending mandate. In order to foster the development of a much-needed SAF industry, while preserving the competitiveness of European airlines, we recommend the following:

- **Set a harmonised EU SAF blending mandate across the EU, including the synthetic fuel sub-target**
We support the EC proposal for a harmonised EU-wide blending mandate to develop a SAF market in Europe. Homogenous EU targets for both SAF and Renewable Fuels of Non-Biological Origin (RFNBO) are essential to secure a level playing field across the Member States. Different national e-fuel sub-targets would not contribute to this and lead to a patchwork of levels in different Member States, undermining the integrity of the EU’s single market. Moreover, as aviation is a hard-to-abate sector, it should be granted priority in the supply of available SAF and RFNBOs over sectors where other means of decarbonisation are already accessible.
- **Keep a strict SAF definition and list of eligible feedstock**
AFKL is concerned by the potential broadening of the feedstock definition that does not meet the highest sustainability criteria. Truly sustainable aviation fuels should not compete with food and feed production. Moreover, as scarcity of resources will add pressure to meeting SAF targets, the focus should be on the addition of alternative feedstock and technologies, as long as they follow the Renewable Energy Directive (RED) sustainability criteria. We stand behind the EC definition of sustainable SAF.
- **Create a more flexible and efficient supply chain through a Book & Claim mechanism**
AFKL welcomes the SAF flexibility mechanism proposed by the European Parliament (EP) that could be further materialised as a proper functioning Book & Claim (B&C) system for suppliers through a delegated act. Such a

mechanism would ensure that suppliers can meet their SAF mandates without the need to physically supply SAF at all airports in the most efficient and economic manner. This would allow a gradual ramp up of the distribution of SAF in all Union airports in the mid-term. B&C systems have proven to be effective in several EU Member States to achieve, verify and administer the formulated objectives, the most prominent one to issue Guarantees of Origin (GoO) for renewable power supplied to the common grid under the RED. A pan-European harmonised B&C system would also enable fuel suppliers to use voluntary supply (above the mandate) and supply more SAF to airlines, that could be used to meet the supplier's overall obligation at all EU airports.

- **Put in place mechanisms that reduce the price gap between kerosene and SAF**
Current SAF prices are three to six times higher than conventional kerosene. For RFNBOs, the cost increase is expected to be even higher. To support the creation of a strong European SAF industry, we very much welcome the proposals to bridge the price gap through SAF allowances and the allocation of penalties through a dedicated SAF fund. However, a sufficient number of allowances should be reserved until 2030 to close this gap.
- **Further define the “Review Clause” to exclude distortions of competition after 2030**
The European Commission should be obliged to study the distortive effects vis-à-vis non-EU airlines and propose corrections at the time of review (in 2026 as proposed by the EP), to exclude long-term distortions after 2030 through a strong review clause (article 14). With the FF55 package as proposed, flying via EU hubs like Amsterdam, Paris or Frankfurt would become about 23-29% more expensive in 2035, which would lead to about 15-17% less passengers travelling through EU hubs¹. Hence, the impact on our competitiveness vis-à-vis third country airlines resulting from the ReFuelEU Aviation proposal, being a core element of the Fit for 55 package, should be further defined. Following such assessment, corrective measures could be taken as soon as possible to ensure fair competition (e.g. integration of mutual SAF mandate levels in comprehensive air transport agreements with third countries).

2. Revision of the EU ETS for Aviation

AFKL welcomes the work done on the EU ETS proposal, which is an efficient market-based measure providing a clear signal to reduce CO₂ emissions. At the same time, the EU ETS revision, on top of global offsetting schemes, will cause steep cost increases for EU airlines, in particular vis-à-vis non-EU competitors, which need to be mitigated. Therefore, we would like to suggest some adjustments to limit the risk of competitive distortion and carbon leakage to help preserve the global level playing field.

- **Ensure a gradual phase-out of free EU ETS allowances**
As proposed by the Council, we call for a gradual phase-out of free EU ETS allowances by 2027 (instead of 2026 or 2025), which would flatten the steep cost increase for EU airlines. Airlines are still recovering from the consequences of the COVID-19 pandemic and we need to provide some time to allow non-EU countries to also up their ambition on mitigating climate impacts. Therefore, the phase-out should be done prudently in order to preserve the industry's competitiveness and prevent the risk of traffic moving outside the EU, which would merely shift CO₂ emissions towards third countries instead of reducing them in absolute terms.
- **Maintain the intra-EEA scope**
The scope of the EU ETS should not be extended to flights departing the EU and travelling to third countries. This measure may impair the further strengthening of CORSIA in the coming years. Additionally, applying the ETS unilaterally to long-haul flights would cause further distortion of competition and damage European connectivity, jobs and growth. As a result, passengers flying long haul may choose non-EU hubs (e.g., Istanbul) for their connecting flights to circumvent higher ticket prices as a result of this measure, resulting in carbon leakage. Moreover, the extension of the scope would not affect airlines operating primarily intra-EU, such as low-cost carriers as the same rules apply to their competitors, but would strongly damage the competitiveness of EU network airlines. If the EU ETS were to be extended to all flights departing the EU, flying via EU hubs (Amsterdam,

¹ NLR SEO study, *Aviation Fit for 55*, March 2022, <https://www.seo.nl/en/publications/aviation-fit-for-55/>

Paris etc.) would become about 31-34% more expensive in 2035, which would lead to about 17-21% less passengers travelling through EU hubs².

- **Incentivise the uptake of SAF through SAF Allowances**

We welcome the proposal to create a SAF allowances mechanism to close the price gap between kerosene and SAF, and further support the development of a SAF industry in Europe. To meet the Council's requirement of offsetting 70% of the additional SAF costs, we call for an increased number of allowances, currently set at 20 million by the Council and the Parliament, which is not enough to meet the Council's provision. AFKL will soon publish a position paper specifically dedicated to SAF allowances, which will contain the number of allowances needed to offset the additional SAF costs.

- **Ensure that SAF that is uplifted outside the EU is eligible under the CORSIA framework on CORSIA routes**

Given the limited market share of EU airlines outside the EU, it is not expected that fuel suppliers will be able to deliver RED-compliant SAF to non-EU airports, at least in the beginning, which is a requirement laid down in the general ETS revision proposal use of SAF under the CORSIA scheme. We urge policymakers to rebalance the ETS text to ensure that flights operated by EU airlines outside the EU and flying on CORSIA-compliant SAF *should* be eligible to claim the relevant and proportional level of emissions reduction under CORSIA. By not doing so, non-EU carriers could uplift CORSIA-compliant SAF and deduct the CO₂ savings from CORSIA offsetting requirements, while EU carriers would not be able to do so, unless that SAF uplifted outside the EU is RED-compliant, which is not expected to be the case, especially in the beginning. This would put EU airlines in a negative competitive position vis-à-vis their non-EU competitors. We urgently call on policy-makers to change this in the general ETS revision.

- **Exclude non-CO₂ emissions from the EU ETS and address them in dedicated EU policy/legislation**

We are committed to improving our understanding of non-CO₂ emissions as well as their effects on climate, and to advancing our efforts to reduce them. However, CO₂ and non-CO₂ emissions behave differently, and therefore the latter should be addressed under a separate legislation.

3. Carbon Border Adjustment Mechanism (CBAM)

The aviation sector has been identified as the 4th most exposed industry to carbon leakage³. Even though we welcome the Commission's proposal to further study the impact of carbon leakage on "transportation services", no specific inclusion of aviation under the Carbon Border Adjustment Mechanism has been proposed yet. European sectors that compete globally with non-EU companies that are not subject to similar climate legislation need protection from unfair competition, especially those sectors where a full phase-out of free allowances under the EU ETS is foreseen. Other sectors operating internationally and subject to a phase-out of free allowances do fall under the CBAM proposal. Therefore, we call for the inclusion of aviation under the CBAM, or a separate but similar operational proposal. To do this, we ask for a precise wording in Article 30, along the lines of the Council's general approach.

4. Concluding Remarks

Overall, AFKL is confident that, during the interinstitutional negotiations, the abovementioned and much-needed adjustments to the proposals are taken into consideration by both the EU Member States and the European Parliament, as sustainable solutions that simultaneously avoid carbon leakage and fully preserve the EU's environmental ambitions. It should be reiterated that AFKL remains committed to decarbonisation and smart solutions realising a more sustainable industry. Therefore, we remain at the disposal of the EU institutions in supporting these ambitions.

² NLR SEO study, *Up in the Air*, October 2022, <https://www.seo.nl/en/publications/up-in-the-air/>

³ <https://afep.com/wp-content/uploads/2021/01/Trade-and-Climate-Change-Quantitative-Assessment-of-the-Best-Policy-Tools.pdf> (figure 13 page 46)